

FINANCE COMMITTEE POLICY
Fauquier County, Virginia

Policy Title:	No.:	Effective Date:
General Operating Fund - Fund Balance Requirement	4	June 30, 2003

I. Purpose

The Board of Supervisors recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management; and, therefore, formally establishes this policy for the County's General Fund. An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the County can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt. The County has achieved a prudent level of fund balance to enable it to set aside the funds needed to meet the target established herein.

II. Scope

This policy establishes the level of fund balance and the contingency reserve required for the County's General Fund. It sets forth the levels deemed appropriate for County operations, and the protocol for the use and maintenance of the established levels. Further, the policy discusses the fund balance of other funds and the impact on the General Fund. This policy is established on the modified accrual basis of accounting for governmental funds.

III. Definitions

- A. **General Fund** – the County's general operating fund, which accounts for all governmental activities unless required to be accounted for in another fund.
- B. **Fund Balance** – the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. It is divided into two elements: reserved and unreserved.
 - 1. **Reserved fund balance** – the portion of financial resources that have been restricted for specific uses such as grants. Reservations are often set by those outside the government such as state and federal agencies and can only be spent for those established purposes.
 - 2. **Unreserved fund balance** – those amounts that are available for spending. Unreserved fund balance is divided into two components: designated and undesignated.
 - a) **Designated fund balance** – management's intended use of financial resources such as for upcoming projects. Designations are non-binding; and, although earmarked for other purposes, these funds are available, if needed, to appropriate for other uses.

- b) **Undesignated** – that portion of fund balance that has not been reserved or designated for other uses; therefore, it is available to spend in future periods.
- 3. Contingency reserve – an amount appropriated from prior year fund balance to use for needs that may arise during the fiscal year that are deemed sufficiently important to implement during the current budget cycle. Typically, this contingency account recognizes that needs occur that were not known during the budget cycle, or were insufficiently defined to allow for a more specific appropriation.

IV. Fund Balance and Contingency Reserve Requirements

- A. The Government Finance Officers Association recommends that at a minimum unreserved fund balance in the General Fund be maintained at no less than five to fifteen percent of regular general operating revenue, or no less than one to two months of regular general fund operating expenditures.
- B. The County sets the level of fund balance needed to mitigate risks and minimize costs associated with debt as follows:
 - 1. The unreserved, undesignated fund balance at each fiscal year end shall range from ten to thirteen percent (10% - 13%) of general operating revenues.
 - 2. Ten percent (10%) is identified as the minimum amount needed to safeguard the County's financial stability and as one component in maintaining its bond ratings. This level is consistent with the mid-range recommended by GFOA and the rating agencies as a minimum. This level provides the County with sufficient funds to operate in excess of one month without interrupting service levels.
 - 3. The upper level of thirteen percent (13%) is that amount recommended as appropriate given the County's long-term growth needs, and the potential impact in difficult times on the general operating fund from non-general fund operations.
 - 4. A contingency reserve of one million dollars (\$1,000,000) is established through the Finance Committee and Board of Supervisors at the beginning of each fiscal year.
 - 5. Fund balances shall be invested in such instruments as deemed appropriate by the County Treasurer, and unless otherwise specified, investment revenue shall accrue to the General Fund.

V. Fund Balance and Contingency Reserve Uses

- A. During the fiscal year, new appropriations will be supported by sources of funds in the following order:
 - 1. The transfer of existing appropriations for other uses with a higher priority;
 - 2. New sources of revenue;
 - 3. Contingency reserves; and
 - 4. Unreserved, undesignated fund balance.
- B. Appropriations from the fund balance below the minimum range of ten percent of operating revenue shall occur only in the event of emergency needs as approved by the Board of Supervisors.
- C. Appropriations from fund balance within the targeted range of ten to thirteen percent of operating revenue shall occur for emergency needs, or other high priority uses, as approved by the Board of Supervisors.
- D. Fund balance amounts that exceed thirteen percent shall be available to designate for future construction needs, or for non-recurring expenditures.

- E. Fund balance shall be evaluated during the annual budget process. It shall be the goal of the Board of Supervisors to adopt a budget that maintains the targets established herein, but minimizes balances in excess of the target. To the extent that the range is exceeded, the subsequent budget process will seek to reduce the impact to taxpayers.
- F. By resolution each fiscal year, the County appropriates one-half of any prior year unexpended unencumbered General Fund appropriation to offset costs of future construction. These funds are transferred to the Capital Projects Fund reserve account for future construction projects.
- G. The order of priority for maintaining fund balance is as follows:
 - 1. Funds will be maintained as unreserved, undesignated fund balance to meet the County's target of thirteen percent established herein.
 - 2. Funds will be appropriated to achieve a total contingency reserve of \$1,000,000.
 - 3. One half of the unexpended appropriation for the prior fiscal year will be transferred to the Capital Projects Fund for future construction.

VI. Policy Compliance

- A. The County's Finance Department in coordination with the Budget Department shall submit an annual report to the Finance Committee upon completion of the audit. If the County does not meet its minimum target, a compliance plan shall be submitted to the Board for approval which will meet this policy by the end of the subsequent fiscal year.
- B. The County shall demonstrate compliance with this policy in its annually adopted budget.

VII. Fund Balances in Other Funds

- A. Capital Projects Funds
 - 1. Fund balances in the Capital Projects Funds are maintained to support the projects adopted in the Capital Improvement Program. The balances in these funds are primarily reserved or designated for specific projects/uses.
 - 2. Annually, cash transfers are made from the supporting operating fund for projects that are approved as cash basis.
 - 3. Debt proceeds are maintained in the Capital Projects Fund for those projects funded with debt.
 - 4. The fund balance in these funds minimizes any potential liability for the General Fund.
- B. Special Revenue Funds
 - 1. Any revenue in excess of expenditures is retained in these funds (Joint Dispatch and Fire & Rescue).
 - 2. Fire & Rescue receives a dedicated portion of the real property tax revenue, which supports this operation.
 - 3. For the Joint Dispatch Fund, the cost of operations may exceed the revenue generated by fees. If expenditures are approved in excess of revenue generation capability, the General Fund will bear much of the costs. The fund balance range established for the General Fund takes this potential liability into account.
- C. Schools Operating Fund
 - 1. The Schools Operating Fund does not maintain a fund balance.

2. At each fiscal year-end if revenue exceeds expenditures, after accounting for carry forward expenditures, the surplus is allocated by resolution with 50% for non-recurring priorities, and 50% transferred to the Capital Projects Fund for future school construction projects.
 3. The General Fund is the primary support for the Schools Operating Fund. In the event, the Schools experience revenue shortfalls or increased costs of operation, the General Fund may be impacted. The fund balance range established for the General Fund takes this liability into account.
- D. Proprietary Funds
1. The County currently has four Proprietary Funds: Solid Waste, Airport, Fleet Maintenance and Health Insurance.
 2. These operations are intended to be self-supporting. As such, the charges for services should be adjusted to cover any deficits.
 3. In the event of deficits, the General Fund may approve a loan to cover the deficit with an appropriate repayment schedule. The fund balance range established for the General Fund takes this liability into account.